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E.O. 11652: GDS

TAGS: PFOR, ID, US

SUBJECT:US-INDONESIAN CONSULTATIONS: STAFF TALKS

1. FOLLOWING IS A SUMMARY OF THE JUST-CONCLUDED US-INDONESIAN CONSULTATIONS, INCLUDING THE STAFF TALKS HELD ON JUNE 25 AND 28. A SEPARATE MESSAGE WILL COVER THE SUBSTANCE OF MALIK'S JUNE 29 MEETING WITH THE SECRETARY.

2. THE INDONESIANS APPEARED HIGHLY SATISFIED WITH THE RESULTS OF BOTH THE STAFF TALKS AND THE MEETING WITH THE SECRETARY. ALTHOUGH THEY WERE UNABLE TO OBTAIN A FURTHER IMPROVEMENT IN FY 1976 FMS CREDIT TERMS NOR SPECIFIC COMMITMENTS ON ADDITIONAL CONCESSIONAL ASSISTANCE FOR INDONESIA, THEY SEEMED REASSURED THAT OUR DESIRE FOR CLOSE COOPERATIVE TIES WITH INDONESIA REMAINED FIRM, THAT

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WE PLANNED TO CONTINUE TO PLAY A ROLE IN SOUTHEAST ASIA, AND THAT WE APPRECIATED AND WOULD CONTINUE TO DO WHAT WE CAN TO HELP WITH INDONESIA'S ECONOMIC AND SECURITY PROB-

LEMS.

3. THE STAFF LEVEL CONSULTATIONS OPENED WITH A PLENARY SESSION ON THE MORNING OF JUNE 25 CHAIRED BY MR. HABIB AND DIRECTOR GENERAL DJAJADININGRAT OF THE INDONESIAN FOREIGN MINISTRY. IT WAS TAKEN UP LARGELY WITH A GENERAL REVIEW OF THE STATE OF US-INDONESIAN RELATIONS AND OUR RESPECTIVE PERCEPTION OF DEVELOPMENTS IN SOUTHEAST ASIA. FOLLOWING THIS, THREE SEPARATE SMALLER MEETINGS -- TWO HOSTED BY STATE AND THE OTHER BY DOD -- WERE HELD THE SAME AFTERNOON TO DISCUSS POLITICAL, ECONOMIC AND SECURITY ISSUES. THE POLITICAL MEETING WAS COMPLETED IN ONE SESSION WHILE THE ECONOMIC AND SECURITY TALKS WERE CONTINUED ON JUNB 28.

4. THE ISSUES - AT THE OPENING SESSION THE INDONESIANS STRESSED THE IMPORTANCE THEY ATTACHED TO THE CONSULTATIONS AND THEIR GENERAL SATISFACTION WITH THE COURSE OF US-INDONESIAN RELATIONS SINCE THE SUHARTO GOVERNMENT ASSUMED POWER. THEY SOUGHT CONCRETE INDICATIONS OF OUR CONTINUED INTEREST AND INVOLVEMENT IN SOUTHEAST ASIA AND EXPRESSED THE DESIRE FOR A BROADER RANGE OF BILATERAL COOPERATIVE ACTIVITIES. WHEN QUERIED AS TO THE CONTENT OF SUCH ACTIVITIES, IT WAS FAIRLY CLEAR THEIR INTEREST LAY IN ASSURANCES OF CONTINUED ADEQUATE AID LEVELS, AS WELL AS MORE EFFECTIVE AID PROCEDURES. SECURITY ASSISTANCE EMERGED AS THE INDONESIANS' MAIN CONCERN IN THE DOD MEETING. THEY APPEARED INITIALLY UNCERTAIN REGARDING FUTURE US INTENTIONS AND SOUGHT REASSURANCE ON THIS SCORE. BEYOND THIS, THERE WERE TWO MAIN INDONESIAN THEMES:

--WHILE BOTH SIDES AGREED ON THE NATURE OF THE BASIC THREAT TO INDONESIA(I.E., OUTSIDE SUPPORT FOR INSURGENCY) THE INDONESIANS HAD AN OBVIOUS FEELING OF URGENCY WHICH THEY SEEMED TO THINK WE DID NOT FULLY SHARE.

--THEY INDICATED DISAPPOINTMENT AT OUR INABILITY TO OFFER
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MORE THAN A SEVEN-YEAR REPAYMENT PERIOD FOR FMS CREDITS AND WERE INITIALLY HESITANT TO SIGN THE REMAINING FY 1976 FMS TRANSACTIONS (BUT EVENTUALLY DID SO BEFORE THE JUNE 30 DEADLINE).

IN RESPONSE WE INDICATED:

--WE INTENDED TO CONTINUE AN ACTIVE INTEREST AND INVOLVEMENT IN SOUTHEAST ASIA. AS AN IMPORTANT ELEMENT OF THIS POLICY, WE INTENDED TO CONTINUE SECURITY ASSISTANCE TO INDONESIA.

--CONGRESSIONAL EFFORTS TO REDUCE SUCH ASSISTANCE DRAS-
TICALLY IN RECENT MONTHS HAD BEEN DEFEATED, REFLECTING A
BROAD DEGREE OF SUPPORT IN THE CONGRESS FOR CLOSE AND
PRODUCTIVE US-INDONESIAN RELATIONS. COMPLETION OF CON-
GRESSIONAL ACTION ON CURRENT LEGISLATION SHOULD RESOLVE
SOME OF THE PRESENT TECHNICAL DIFFICULTIES.

-- AS TO FMS TERMS, WE INDICATED THAT THE SEVEN-YEAR
REPAYMENT PERIOD WAS THE BEST WE COULD DO FOR FY-1976
BUT THAT WE WOULD REVIEW THE QUESTION NEXT FISCAL YEAR.

5. SECURITY DISCUSSIONS - GENERAL SUMANTRI STATED THAT
HE SAW NO SIGNIFICANT CHANGE IN THE EXTERNAL THREAT TO
INDONESIA FROM THE SITUATION THAT EXISTED A YEAR AGO,
I.E., THE MAIN THREAT WAS STILL HANOI. HE EMPHASIZED
THAT INDONESIA MUST USE THE PRESENT INTERVAL TO PREPARE
FOR FUTURE CONFLICT. HE AGAIN PRESSED THE GOI'S REQUEST
FOR A TEN-YEAR REPAYMENT PERIOD FOR FMS CREDIT, BUT
FINALLY AGREED TO THE SEVEN-YEAR PERIOD FOR FY 76 WHEN WE
POINTED OUT THAT A FURTHER EXTENSION WAS NOT POSSIBLE
AT THIS TIME AND THAT THE FY 76 CREDIT FUNDS WOULD BE
LOST IF AN AGREEMENT WAS NOT SIGNED BY JUNE 30. SUMANTRI
ALSO INDICATED THAT THE INDONESIANS DESIRED TO REVISE
THE FY 76 AND 77 GRANT AID PROGRAMS DEVELOPED IN FEBRUARY
1975 IN LIGHT OF THEIR CHANGING MILITARY PRIORITIES.
WHILE SUMANTRI DID NOT INDICATE SPECIFICALLY WHAT MODI-
FICATIONS MIGHT BE REQUESTED, HE DID SUGGEST THAT THEY
MIGHT BE SUBSTANTIAL AND PROBABLY WOULD INCLUDE SMALL
ARMS. THE INDONESIANS WERE INFORMED THAT THE PROCUREMENT

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PROCESS FOR FY 76 ITEMS WAS PROCEEDING, BUT THAT WE
COULD ACCOMMODATE CHANGES MADE IN THE FY 76 PROGRAM UP
TO JULY 30. GENERAL SUMANTRI INDICATED THAT HIS STAFF
IN CONJUNCTION WITH THE USDLG WOULD BEGIN WORK IMMEDI-
ATELY. HE ALSO SAID THAT THE GOI WAS CONCERNED WITH THE
BLOCK OBSOLETE OF ITS FIGHTER AIRCRAFT AND WAS
CONSIDERING PURCHASING UNDER FMS CREDIT A SINGLE AIRCRAFT
THAT COULD BE USED BOTH AS A TRAINER AND A FIGHTER.
IN ADDITION HE INDICATED THE GOI WAS INTERESTED IN OB-
TAINING SUBMARINES. WE TOLD HIM THAT THE U.S. NAVY
HAD NO SUBMARINES AVAILABLE THROUGH FY 80 AND THAT WE
COULD NOT PREDICT BEYOND THAT. THERE WAS ALSO A BRIEF
REFERENCE, NOT SPELLED OUT, TO TURNING NATUNA ISLAND
INTO A "FORWARD DEFENSE AREA" IN VIEW OF ITS STRATEGIC
POSITION. THE DISCUSSIONS CONCLUDED WITH DOD STRESSING
ITS DESIRE TO BE OF ANY ASSISTANCE TO THE INDONESIANS
WITH THEIR PROGRAMMING OR ANY OTHER SECURITY ASSISTANCE
MATTERS.

6. POLITICAL DISCUSSIONS. WE PRESSED THE INDONESIANS ON MULTILATERAL ISSUES: PUERTO RICO, KOREA, THE MIDDLE EAST ISSUES AND PANAMA. THE INDONESIANS LISTENED CAREFULLY TO OUR PRESENTATION AND DJAJADININGRAT INDICATED SOME RECEPTIVITY, EXCEPT ON THE MIDDLE EAST WHERE HE INDICATED THAT THEIR DOMESTIC POLITICAL NEEDS REQUIRE THEM TO SHOW SOLIDARITY WITH THE MOSLEM WORLD. WE ALSO INDICATED THE PRESENT STATE OF PLAY IN CONGRESS ON HUMAN RIGHTS AND ENCOURAGED THEM TO CONTINUE THE TACTIC, SUCCESSFUL TO DATE, OF TRYING TO BE AS COOPERATIVE AS POSSIBLE WITH CONGRESS. THE INDONESIANS WERE BRIEFED SPECIFICALLY REGARDING THE HUMAN RIGHTS REPORTING REQUIRED BY CURRENT SECURITY LEGISLATIONS. DJAJADININGRAT OFFERED TO HELP IN ANY WAY INDONESIA COULD.

7. ECONOMIC DISCUSSIONS(JUNE 25) - THE INDONESIANS EXPRESSED GENERAL SATISFACTION WITH STATE OF OUR ECONOMIC RELATIONS. THEY REMARKED THAT THE DURATION OF THE NAIROBI CONFERENCE WAS TOO SHORT FOR THE PARTICIPANTS TO DEVELOP A CLEAR REACTION TO THE USG INTERNATIONAL RESOURCES BANK (IRB) PROPOSAL. THEY SHOWED AN INTEREST IN HOW WE PERCEIVE THE RELATIONSHIP BETWEEN OUR BANK PROPOSAL
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AND THE GROUP OF 77'S COMMON COMMODITY FUND PROPOSAL, WHICH THEY CONTINUED STRONGLY TO SUPPORT. THEY LISTENED TO OUR EXPLANATION OF THE NEED FOR OPEC COUNTRIES TO INCREASE THEIR PLEDGES TO THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) AND INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD), SAID THEY WOULD TRY TO GET ADDITIONAL OPEC COMMITMENTS, AND HOPED THE USG WOULD FULFILL ITS OWN PLEDGE TO IDA AND IFAD. THERE WAS NO POSITIVE RESPONSE TO OUR EXPRESSION OF READINESS TO ENTER INTO ECONOMIC TALKS WITH THE ASEAN COUNTRIES, ALTHOUGH THEY ASKED FOR AN INDICATION AS TO WHETHER WE WOULD BE PREPARED TO HELP SUPPORT FINANCIALLY SOME JOINT ASEAN INDUSTRIAL PROJECTS AS WELL AS TO COOPERATE IN PROMOTING ASEAN EXPORTS TO THE US. OTHER TOPICS INCLUDED ENERGY ISSUES AND TECHNOLOGY TRANSFERS. THE INDONESIANS REQUESTED AND RECEIVED WRITTEN INFORMATION ON THE INTERNATIONAL INVESTMENT TRUST, THE INTERNATIONAL RESOURCE BANK AND THE INTERNATIONAL INDUSTRIALIZATION INSTITUTE.

8. ECONOMIC DISCUSSIONS (JUNE 28) - THERE WAS A LONG DISCUSSION OF INDONESIA'S PRIVATE INVESTMENT SITUATION AND OF FACTORS AT WORK. ASSURANCES WERE GIVEN THAT RECENT IRS RULING WAS SUI GENERIS AND NOT DIRECTED AT INDONESIA, AND THAT USG POLICY DOES NOT DISCOURAGE US PRIVATE INVESTMENT ABROAD. MR. SOEHOED EXPRESSED INTEREST

IN THE INTERNATIONAL INVESTMENT TRUST AS A MEANS OF OBTAIN-

ING NEEDED CAPITAL WITHOUT DOMINATION BY FOREIGN ENTERPRISES. EACH SIDE SET FORTH ITS POSITION ON MTN TROPICAL PRODUCTS NEGOTIATIONS. WE SAID WE HOPED TO BEGIN GATT ARTICLE 28 TALKS BY FALL. WE DESCRIBED SERIES OF UNPREDICTABLE EVENTS WHICH HAVE HINDERED OUR CONTINUING EFFORTS TO SEEK CONGRESSIONAL REMOVAL OF OPEC EXCLUSION FROM GSP BENEFITS. IN CONTEXT US-INDONESIAN TRADE, THERE WAS EXTENDED DISCUSSION EXIM BANK POLICIES WITH INDONESIA EXPRESSING CONCERN ABOUT TERMS AND INTEREST RATES. WE WERE OBLIGED TO REFER TO STATUTORY BARS AGAINST RELAXATION OF OUR VARIOUS CARGO PREFERENCE RULES (PL 480, AID, EXIM), BUT DID INVESTIGATE FOR GOI SIDE ONE EXCEPTIONAL EXIM PRACTICE IN LATIN AMERICAN COMMERCE. RATIONALE AND CONTENT OF EVOLVING USG DEVELOPMENT ASSISTANCE STRATEGY EXPLAINED

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IN DETAIL BY AID ASSISTANT ADMINISTRATOR GARDINER. LATTER INDICATED U.S. AID LEVELS FOR INDONESIA WOULD PROBABLY NOT RETURN TO MAGNITUDES OF EARLY 1970'S, BUT NOTED SOFTNESS OF OUR DL TERMS. GARDINER ALSO STRESSED IMPORTANCE OF MULTILATERAL FINANCING AND PRIVATE CAPITAL FLOWS AS COMPLEMENTS OF OFFICIAL BILATERAL AID. WE OUTLINE 1976 U.S GRAIN CROP PROSPECTS AND THE LIKELIHOOD THAT NO COTTON WOULD BE AVAILABLE UNDER PL 480 IN 1977.

9. APART FROM THE SCHEDULED MEETINGS, THE CIVILIAN MEMBERS OF THE INDONESIAN DELEGATION WERE ENTERTAINED AT A LUNCH HOSTED BY ACTING ASSISTANT SECRETARY MILLER ON JUNE 28 AND THE MILITARY MEMBERS WERE GIVEN A LUNCH AT THE PENTAGON ON THE SAME DAY. THE SECRETARY HOSTED A LUNCH FOR MALIK AND HIS SENIOR ADVISERS JUNE 29. THE INDONESIAN EMBASSY, IN TURN, GAVE DINNER ON JUNE 29 AND 30, WITH THE SECRETARY AS THE GUEST OF HONOR ON THE FORMER DAY. THESE FUNCTIONS, PLUS A NUMBER OF INDIVIDUAL MEETINGS, GAVE THE TWO DELEGATIONS EXTENSIVE OPPORTUNITIES FOR FURTHER INFORMAL EXCHANGES ON VARIOUS TOPICS. KISSINGER

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